

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)
HAWAIIAN ELECTRIC COMPANY, INC.)
For Approval to Sell the Palolo)
Substation Site.)
_____)

DOCKET NO. 05-0280

DECISION AND ORDER NO. 22664

Filed August 1, 2006
At 11 o'clock A .M.

Karen Higashi
Chief Clerk of the Commission

DIV. OF CONSUMER ADVOCACY
DEPT. OF COMMERCE AND
CONSUMER AFFAIRS
STATE OF HAWAII

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ATTEST: A True Copy
KAREN HIGASHI
Chief Clerk, Public Utilities
Commission, State of Hawaii.

K. Higashi

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DECISION AND ORDER

By this Decision and Order, the commission approves HAWAIIAN ELECTRIC COMPANY, INC.'s ("HECO") sale of the Palolo Substation site (the "Property").

I.

Background

A.

HECO

HECO is a Hawaii corporation initially organized under the laws of the Kingdom of Hawaii on or about October 13, 1891. It is a public utility as defined by Hawaii Revised Statutes ("HRS") § 269-1, engaged in the production, purchase, transmission, distribution and sale of electricity on the island of Oahu in the State of Hawaii.

B.

Application

On November 4, 2005, HECO filed an Application for Approval to Sell the Palolo Substation Site ("Application"),¹ in accordance with HRS § 269-19 and Paragraph 13 of the "Conditions for the Merger and Corporate Restructuring of Hawaiian Electric Company, Inc.," which is attached as Exhibit A to Order No. 7256, filed on September 29, 1982, in Docket No. 4337.² In its Application, HECO requests commission approval to sell the Property ("Proposed Transaction") on the ground that the Property is no longer needed for utility purposes.

HECO states that it acquired the Property, which consists of 2,863 square feet³ located at 3419 Paalea Street (tax map key number (1) 3-3-041:001) for approximately \$1,756. The Property was

¹On November 4, 2005, HECO served a copy of the Application on the DIVISION OF CONSUMER ADVOCACY, DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS ("Consumer Advocate"). The Consumer Advocate is an *ex officio* party to this docket, pursuant to HRS § 269-51 and Hawaii Administrative Rules ("HAR") § 6-61-62.

²On November 18, 2005, the Consumer Advocate submitted information requests ("IRs") to HECO. On December 12, 2005, HECO provided responses to the Consumer Advocate's IRs ("HECO's Response").

³HECO states in its Application that the Property consists of 3,035 square feet. City and County of Honolulu Department of Planning and Permitting ("City Planning and Permitting") records, however, state that the Property is 2,863 square feet. Pursuant to Hawaii Administrative Rules § 6-61-48, the commission takes official notice of those facts contained in the City Planning and Permitting records.

In addition, the "Land Transactions Adjustment Schedule," that HECO provided in response to CA-IR-1 states that the land area of the Property is 2,863 square feet and that of the 2,863 square feet, only 1,514 square feet is "usable" land area.

used as a substation until 1970, when HECO removed the 4 kilovolt ("kV") transformer in service at the substation after the distribution system for the area was converted from 4kV to 12kV. Currently, the Property is not being used and is not needed for utility purposes as the existing distribution system is adequate to serve existing and future loads. HECO states that, at present, the Palolo area is served via a 46-12kV, 10/12.5 megavolt-ampere transformer located at the Pukele Substation. The backup sources for the loads originate from the Kapiolani and Kahala Substations. HECO represents that the existing Property is too small to accommodate a 46-12kV substation transformer and that a 25kV substation transformer is even larger. HECO asserts that the existing distribution system in the area is adequate to serve the current loads, as well as any foreseeable loads, and that there is no need for a new substation in the area.

On or about April 14, 2005, HECO received a Deposit Receipt Offer and Acceptance dated April 14, 2005 ("DROA"), from Richard I. Afuso, owner of the adjacent property, offering to purchase the Property for \$105,000. HECO's in-house appraiser reviewed comparable sales information and determined a Total Site Value of \$62 per square foot,⁴ which amounted to \$94,000 for the Property.⁵ Given that the sales price offered by Mr. Afuso was higher than the appraised value of the Property, HECO accepted the DROA, contingent upon approval of the sale by the commission.

⁴See CA-IR-1.

⁵See HECO's Response to CA-IR-1.

HECO proposes that the entire gain from the sale, \$53,664,⁶ be "applied to NARUC account 253 'Other Deferred Credits,' and amortized on a straight line basis to utility operating income . . . over a five-year period."⁷ HECO further proposes that the five-year period begin in the month following the sale of the Property and that HECO deduct the unamortized balance in the "Other Deferred Credits" from rate base.

HECO represents that a sale of the Property will not adversely affect HECO's performance of its duties to the public.

C.

Consumer Advocate's Statement of Position

On January 11, 2006, the Consumer Advocate filed its statement of position stating that it does not object to the Proposed Transaction and the proposed accounting treatment of the gain from the sale of the Property ("Statement of Position"). According to the Consumer Advocate: (1) the Property does not appear to be recorded for utility purposes so HECO's sale of the Property should not adversely affect its ability to provide reliable service to its customers; (2) the proposed selling price of the Property appears reasonable; and (3) HECO's proposed accounting treatment of the net gain from the sale of the Property

⁶See HECO's Response to CA-IR-4.

⁷Application at 4. HECO asserts that its proposed use of gains from the sale of the Property is based on past commission decisions. See Application at 4, n. 1.

is reasonable and consistent with prior commission rulings and Consumer Advocate recommendations.

II.

Discussion

HRS § 269-19 provides that no public utility corporation shall "sell, lease, assign, mortgage, or otherwise dispose of or encumber the whole or any part of its road, line, plant, system, or other property necessary or useful in the performance of its duties to the public . . . without first having secured from the public utilities commission an order authorizing it so to do." HRS § 269-19 also states: "Every such sale, lease, assignment, mortgage, disposition, encumbrance, merger, or consolidation, made other than in accordance with the order of the commission shall be void."

Paragraph 13 of the "Conditions for the Merger and Corporate Restructuring of Hawaiian Electric Company, Inc." mandates that HECO "shall not transfer any of its property which is or was in the rate base . . . without the prior approval of the [c]ommission." It also states that the "determination of the transfer value and the accounting and rate-making treatment thereof shall be determined by the [c]ommission at the time of approval of such transfer."

Here, HECO's sale of the Property appears reasonable and in the public interest. Purchased in 1947, the Property has not been used by HECO since 1970 when its usefulness as a substation

ceased. Although HECO considered other uses for the Property,⁸ it has not been utilized since, and HECO asserts that there are no alternative utility-related applications for the Property. Furthermore, the sale of the Property should not have a negative impact on HECO's ability to provide reliable service to its customers. Moreover, the sales price offered by Mr. Afuso, \$105,000, is higher than the determined appraised value of the Property,⁹ and HECO's proposed accounting treatment of the net gain from the sale of the Property is consistent with prior commission decisions. Accordingly, the commission concludes that HECO's request for approval of the sale of the Property should be approved.

III.

Orders

THE COMMISSION ORDERS:

1. HECO's request for commission approval to sell the Palolo Substation site is approved.
2. This docket is closed unless otherwise ordered by the commission.


⁸See HECO's Response to CA-IR-2.

⁹The Property has an appraised value of \$94,000. See HECO's Response to CA-IR-1.


DONE at Honolulu, Hawaii AUG - 1 2006.

PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By: 
Carlito P. Caliboso, Chairman

By: 
John E. Cole, Commissioner

APPROVED AS TO FORM:


Benedyne S. Stone
Commission Counsel

05-0280.eh

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Decision and Order No. 22664 upon the following parties, by causing a copy hereof to be mailed, postage prepaid, and properly addressed to each such party.

DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
DIVISION OF CONSUMER ADVOCACY
P. O. Box 541
Honolulu, HI 96809

WILLIAM A. BONNET
VICE PRESIDENT, GOVERNMENT AND COMMUNITY AFFAIRS
HAWAIIAN ELECTRIC COMPANY, INC.
P.O. Box 2750
Honolulu, HI 96840-0001

DEAN MATSUURA
DIRECTOR, REGULATORY AFFAIRS
HAWAIIAN ELECTRIC COMPANY, INC.
P.O. Box 2750
Honolulu, HI 96840-0001



Karen Higashi

DATED: AUG - 1 2006